

What is claimed is:

1 1. A method of hedging investment risk in actively managed
2 exchange traded funds, comprises:

3 extracting factor information from the portfolio of the
4 actively managed exchange traded fund;

5 determining factors that affect the value of the
6 exchange traded fund; and

7 selecting a portfolio of financial instruments with
8 similar behavior with respect to the determined factors to
9 produce a hedging portfolio that tracks the price of the exchange
10 traded fund.

1 2. The method of claim 1 wherein the portfolio tracks the
2 price of the exchange traded fund.

1 3. The method of claim 1 further comprising:
2 producing a hedging portfolio from the portfolio of
3 financial instruments to hedge a position taken in the exchange
4 traded fund.

1 4. The method of claim 1 wherein determining further
2 comprises:

3 applying factor analysis to the portfolio of the
4 exchange traded fund to provide the factors.

1 5. The method of claim 3 wherein applying occurs in a
2 trusted computer system.

1 6. The method of claim 1 wherein the factors that are
2 examined by factor analysis include economic activity, inflation
3 rates or other factors that are related to measures of economic
4 activity.

1 7. The method of claim 1 further comprising:
2 constructing a factor portfolio based upon weightings
3 and selections of securities from a given group of securities.

1 8. A computer program product residing on a computer
2 readable medium for hedging investment risk in actively, managed,
3 exchange traded funds, comprises instructions for causing a
4 computer to:

5 extract factor information from a portfolio of the
6 actively managed exchange traded fund;

7 determine factors that affect the price of the exchange
8 traded fund; and

9 select a portfolio of financial instruments with
10 similar behavior with respect to the determined factors to
11 produce a hedging portfolio that tracks the price of the exchange
12 traded fund.

1 9. The computer program product of claim 8 wherein the
2 portfolio tracks the price of the exchange traded fund.

1 10. The computer program product of claim 8 further
2 comprising instructions to:

3 produce a hedging portfolio from the portfolio of
4 instruments to hedge a position taken in the exchange traded

5 fund.

1 11. The computer program product of claim 8 wherein
2 instructions to determine further comprise instructions to:
3 apply factor analysis to the portfolio of the exchange
4 traded fund to provide the factors.

1 12. The computer program product of claim 11 wherein
2 instructions to apply are executed in a trusted computer system.

1 13. The computer program product of claim 8 wherein the
2 extracted factors that are examined by factor analysis include
3 economic activity, inflation rates or other factors that are
4 related to measures of economic activity.

1 14. The computer program product of claim 8 further
2 comprising instructions to:
3 construct a factor portfolio based upon weightings of
4 and selections from a given group of instruments.

1 15. A computer system for determining a basket of
2 securities for hedging investment risk in actively managed
3 exchange traded funds, comprises:
4 a trusted computer system; and
5 a computer storage medium storing a computer program
6 product for determining the basket of instruments for hedging
7 investment risk, comprising instructions for causing the computer
8 to:
9 extract factor information from a portfolio of an
10 actively managed exchange traded fund;

11 determine factors that affect the price of the exchange
12 traded fund; and

13 select a portfolio of financial instruments with
14 similar behavior with respect to the determined factors to
15 produce a hedging portfolio that tracks the price of the exchange
16 traded fund.

1 16. The system of claim 15 wherein the computer program
2 further comprises instructions to:

3 produce a hedging portfolio from the portfolio of
4 stocks to hedge a position taken in the exchange traded fund.

1 17. The system of claim 15 wherein instructions to
2 determine further comprises instructions to:

3 apply factor analysis to the portfolio of the exchange
4 traded fund to provide the factors.

1 18. The system of claim 15 wherein system examines factors
2 including economic activity, inflation rates or other factors
3 that are related to measures of economic activity.

1 19. The system of claim 15 wherein the computer program
2 further comprises instructions to:

3 construct a factor portfolio based upon weightings and
4 selections from a given group of instruments.

1 20. A method of calculating a Net Asset Valuation proxy
2 comprises:

3 producing a hedging portfolio to track an actively

4 managed fund by extracting factor information from a portfolio of
5 the actively managed exchange traded fund and determining factors
6 that affect the price of the exchange traded fund to select a
7 portfolio of financial instruments with similar behavior with
8 respect to the determined factors to produce the hedging
9 portfolio; and
10 applying current prices to the hedging portfolio to
11 determine a NAV proxy value for the exchange traded fund.